COST-OF-LIVING ALLOWANCE FOR FEDERAL EMPLOYEES IN NONFOREIGN AREAS

HEARING

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE, AND GENERAL SERVICES

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

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COST-OF-LIVING ALLOWANCE FOR FEDERAL EMPLOYEES IN NONFOREIGN AREAS

THURSDAY, MAY 14, 1981

U.S. SENATE,
SUBCOMMITTEE ON CIVIL SERVICE,
POST OFFICE, AND GENERAL SERVICES,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The subcommittee met at 9:03 a.m., in room 4200, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Present: Senator Stevens.

Also present: Senator Murkowski.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS. Good morning.

Today we are hearing testimony on the cost-of-living allowance—or COLA—program for Federal employees. The current program originated in the Truman administration and was designed as a mechanism to recruit and retain Federal employees for duty outside of the continental United States. The program, now embodied in a statute, provides a supplemental allowance of up to 25 percent of basic pay. The amount of the allowance is to reflect the difference in the cost of living between the designated area and Washington, D.C. It may also take into consideration extreme environmental factors which make it difficult to recruit personnel.

In recent years COLA has come under increasing attack from various quarters. The administration opposes its continuance. GAO recommends the allowance be based on spendable income, which is approximately 60 percent of basic pay. The Federal employees, at least in Alaska, find its recent implementation inequitable—and, for that matter, so do I. Private sector employees who work with COLA recipients oppose its tax-free provisions.

Although COLA is not considered pay, recipients do not differentiate. Alaskans, for instance, who face the highest prices in the Nation, are dependent upon it to keep pace with inflation. There is clearly something wrong with a system when the cost of living increases by 20 percent and COLA is reduced by 7½ percent over the same 2-year period. Yet that is exactly what happened in Anchorage. Either the system needs to be implemented with some semblance of reason or it should be scrapped for a better way.

Finally, I will be interested today in hearing how our witnesses view locality pay. Locality pay would authorize the payment of sal-

aries to Federal employees comparable to their private sector counterparts in the locality. In such cases COLA would be substituted by locality pay.

This morning I understand my colleague, Don, has a schedule problem. We would very much like to hear Congressman Young first.

TESTIMONY OF HON. DON YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALASKA

Representative YOUNG. Thank you, Mr. Chairman. It is indeed a pleasure to appear before my fellow colleague, the senior Senator from the State of Alaska, the chairman of this subcommittee.

Mr. Chairman, I am pleased to be here today to testify on the cost-of-living allowance paid to Federal employees in the State of Alaska. This is a subject close to the hearts of thousands of residents of my State who have witnessed a gradual reduction in their cost-of-living allowance. The adverse effects of these reductions must not be ignored any longer. Our Federal employees have too long suffered the instability caused by cuts in pay. For these people to receive yearly reductions in COLA while inflation soars to 10 percent or more, especially in the State of Alaska, is unfair. The policy makes for a demoralized work force, Mr. Chairman. It can only alter performance and it must reduce productivity. The entire lives of these people and their families are affected, and I cannot help but think that such cuts in COLA must discourage people from considering Federal service as a viable and stable means of employment.

It is hardly desirable to accept a position at a certain salary knowing that it most likely will be eroded yearly. It is not desirable to take a job knowing that others in similar professions are paid 30 percent or more for the same work in the private sector and in the State of Alaska. Such policy deters qualified Federal employees from continuing their service. It increases turnover, which, in turn, has a detrimental effect on productivity.

If the Government wants to do business in a high cost-of-living area, such as Alaska, it must be prepared to provide a wage to its employees comparable with that of their local counterparts. Basing the cost-of-living allowance using Washington, D.C., as an arbitrary base may be consistent with the terms of an antiquated law but does not recognize the financial burden of the Federal employee trying to survive the high cost of living in Alaska.

It is time for the establishment of a local comparability pay system in Alaska, and I am prepared as the Congressman of Alaska to cooperate in any way I can with the chairman and this Subcommittee to solve and to make such a plan a reality.

Mr. Chairman, I have done some private talking with many Federal employees in the State of Alaska. As you know, Mr. Chairman, there is a totally inadequate appropriate pay system. The individuals especially now on the State payrolls are receiving a much higher percentage of pay than the Federal employees even with COLA.

I want to commend the chairman for having these hearings. I am sure with your great ability you have been able to display in the

State of Alaska we will be able to come to grips with this problem and solve the problem so we can have a very viable Federal working relationship at this time.

Thank you very much, Mr. Chairman.

Senator STEVENS. Thank you very much, Congressman. You will be welcome to stay with the subcommittee. I know you have a committee meeting. If you can get back, you will be welcome.

Representative YOUNG. Mr. Chairman, I will try and get back. I have a meeting with my Committee on Parks and Public Lands with Mr. Seiberling. Secretary Watt is appearing before my committee, and I want to be there to encourage Mr. Watt to continue his activities, as well as make sure Mr. Seiberling doesn't take his scalp. There isn't much there to take, but he is going to try to take it.

Senator STEVENS. Thank you.

Representative YOUNG. Thank you, Mr. Chairman.

Senator STEVENS. Mr. Gould, good morning.

TESTIMONY OF CLIFFORD I. GOULD, DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY TOM EICKMEYER, GROUP DIRECTOR, AND ROGER HULTGREN, EVALUATOR

Mr. GOULD. Good morning. Good to see you again, sir.

I would like to introduce the two gentlemen at the table, Mr. Eickmeyer and Mr. Hultgren, who have been doing work in the cost-of-living allowance area and should be able to answer specific questions that you may have on the allowances.

Senator STEVENS. Thank you.

Mr. GOULD. I am pleased to be here today to discuss the work of the General Accounting Office concerning the cost-of-living allowance paid to Federal employees in Alaska and other nonforeign areas outside the continental United States.

Under present law, certain civilian employees in these areas are authorized to receive COLA when living costs are substantially higher than those in Washington, D.C. The allowance, which may not exceed 25 percent of base pay, is not subject to Federal income tax.

The Office of Personnel Management is responsible for prescribing regulations governing the payment of the allowance and, at least once each year, must determine the rates at which COLA will be paid for each eligible area.

COLA's are authorized for Federal employees whose rates of base pay are the same regardless of where they work. Allowances are not authorized for blue-collar employees since their pay is based on prevailing local rates.

As of November 1980, there were almost 10,540 Federal civilian employees in Alaska receiving COLA payments estimated to cost about $45.6 million during fiscal year 1981.

The General Accounting Office has long been concerned about the appropriateness of paying COLA in nonforeign areas. In a February 1976 report to the Congress entitled "Policy of Paying Cost-of-Living Allowances to Federal Employees in Nonforeign Areas Should Be Changed," we said that this allowance was inconsistent

with the Government's policy of establishing pay rates for its employees on the basis of comparability with the private sector, and it is discriminatory since it does not apply to Federal employees in the 48-contiguous States. We recommended that it be replaced with special pay rates based on local private sector pay, where warranted, to overcome any recruitment and retention problems caused by higher private sector pay.

The new administration's pay reform proposal, S. 838, was introduced in the Senate on March 31, 1981. The bill would empower the President to establish locality rates of pay for general schedule employees and would eliminate the nonforeign area COLA program.

This week we sent a letter to OPM reiterating another recommendation we made in our 1976 report. We believe that if the allowance is continued, it should be based on spendable income rather than base pay. Spendable income is base pay less income taxes, retirement contributions, life insurance premiums, charitable contributions, and savings.

The purpose of COLA is to enable a Federal employee in a nonforeign area to maintain purchasing power similar to that of a comparable Federal employee in Washington, D.C. The COLA rate is computed from a comparison of the cost for a market basket of goods and services in the nonforeign area with the cost of a similar market basket in Washington, D.C. By applying the COLA rate to base pay, employees are compensated for items that are not in the market basket—income taxes, retirement, life insurance, savings, and charitable contributions. These are not included in the market basket costs because Federal employees receiving the same base pay incur essentially the same cost for these items, regardless of their place of employment.

We recognize that private sector salaries in Alaska are substantially higher than salaries in the 48-contiguous States, and that the Government already pays special rates to some occupational groups for recruitment and retention purposes. Accordingly, we believe that if our recommendation is adopted, additional special pay rates would be necessary to retain well-qualified employees in Alaska.

We are currently reviewing OPM's methodology for computing the COLA rates. We are also looking at the methods used to set COLA rates by the Department of Defense for military personnel and by the Department of State for civilians in foreign areas. While we have not yet completed this study, I would like to share with you some observations of the programs.

In some aspects, the methodologies used by OPM, Defense, and State are similar. All agencies use a survey of eligible personnel to find out where they buy. Then, the prices of a market basket of goods and services in the area eligible for COLA are compared with prices for a similar market basket in the base area.

There are, however, differences in the methods used by OPM, State and Defense which make it difficult for Federal personnel to understand and managers to explain how COLA rates are computed. For example, last year the Commanding General of the 172d Infantry Brigade in Fort Richardson, Alaska, wrote to his superiors that differences between the military and civilian COLA programs

and rates make it hard to explain how the programs work. The General wrote:

> * * * I find that I am not able to exercise my responsibility to assure my personnel that they are receiving equitable and fair treatment.

Let me highlight a few of the differences in methodologies.

First, different base areas are used to set the rates. By law, the OPM COLA rates are based on prices in Washington, D.C. The statute authorizing the Defense COLA does not specify a base. Defense has chosen to use composite prices which represent the national average adjusted to account for purchases from commissaries and post exchanges. Because prices in Washington generally are higher than average prices throughout the country, the OPM COLA rates will tend to be less than the Defense COLA rates. On the other hand, where military commissaries and post exchanges are readily available, the Defense COLA rates may be lower than the OPM COLA rates because of the lower prices for products sold through the commissaries and exchanges.

Second, there are differing limits on COLA payments. The statute authorizing the OPM COLA provides that COLA for civilian employees cannot exceed 25 percent of base pay. There is no statutory limit for the military COLA. In Juneau, Fairbanks, and Kotzebue, Alaska, the OPM COLA is at the maximum—25 percent of base pay. The military COLA rate is 38 percent in Juneau, 32 percent in Fairbanks, and 52 percent in Kotzebue. However, Defense limits the spendable income on which COLA is paid to $10,771, whereas the OPM COLA rate is paid on total base pay. As a result, while the Defense COLA percentages are higher, the dollar amounts actually paid may be less than amounts paid under OPM's COLA.

A third difference is Defense's use of environmental factors in its COLA rate computation. These are not considered in the other programs. In early 1981, Defense added to its COLA rate computation consideration of costs unique to Alaska such as winter protective clothing and special lubrication and equipment for automobiles. The effect of these environmental factors was to add several percentage points to the Defense COLA rates. This probably added to the confusion over COLA when, in January 1981, OPM announced that its COLA rate for Anchorage would be decreased, and 1 month later Defense increased its COLA rate in Anchorage, due largely to the environmental factors.

Defense officials say the environmental factors are needed to offset one-time purchases that military members must make when they are transferred to Alaska. OPM told us that they do not include these environmental factors because the majority of the civilians employed in Alaska are native to the area and thus do not have to relocate and do not face these one-time costs.

We will discuss these matters in more detail and make appropriate recommendations in our report on COLA methodologies which we expect to issue later this year.

Mr. Chairman, this concludes my prepared statement, and we will be happy to attempt to answer any questions you have, sir.

Senator STEVENS. Thank you very much.

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Senator Murkowski, do you want to make any opening statement? We would be happy to have you join the subcommittee here this morning.

TESTIMONY OF HON. FRANK H. MURKOWSKI, U.S. SENATOR FROM THE STATE OF ALASKA

Senator MURKOWSKI. Yes, I have a prepared statement that I would like to read.

I appreciate the opportunity to participate in the subcommittee's deliberations concerning the cost-of-living adjustments paid to Federal white-collar employees working in Alaska and other noncontiguous areas of the United States.

Mr. Chairman, as you have mentioned, the current COLA system has come under attack from many sides. Many citizens employed by the private sector find the inherent tax-free benefits enjoyed by the Federal employee under COLA objectionable. The General Accounting Office has argued that COLA should be based on spendable income rather than full base pay. Most recently, the Office of Personnel Management has announced that COLA rates for Federal workers in the Anchorage area were to be cut 2½ percent. While COLA is not considered to be pay in a technical sense, the Federal employees in Alaska who depend upon it as part of their regular paycheck certainly view it as such—and understandably so. At the risk of repeating what may have already been said here this morning, it simply isn't fair to expect Federal workers in the Anchorage area to stand by quietly as their paychecks decrease in the face of spiraling inflation, and I am sure you would agree with that.

The most recent Bureau of Labor Statistics figures indicate that Anchorage, Alaska, has one of the highest, if not the highest, cost of living of all major cities in the United States. Over the past 2 years, Anchorage COLA has been reduced approximately 7½ percent while the area's cost of living—which was already extremely high—has increased some 20 percent. This is a dangerous trend which will make it increasingly difficult to maintain a competent, effective Federal work force in Alaska, particularly Anchorage.

I understand that the COLA adjustment is designed to compensate employees for cost-of-living differences between Washington, D.C., and the allowance area. It is not a general inflation adjustment. Perhaps we are being unrealistic if we expect it to serve as a mechanism to keep Federal salaries more or less in line with the salaries earned by State government and private sector employees holding similar jobs in Alaska. The current COLA mechanism, which was initiated during the Truman administration, may not be the best mechanism to insure that the salaries between Federal and non-Federal workers in Alaska remain roughly in line with one another. Certainly times have changed, and perhaps it is time to consider a new mechanism.

I recently received a letter from an engineer employed by the Federal Government in Anchorage. On a day-to-day basis, this young, ambitious engineer found himself working side-by-side with other engineers employed by private companies and State agencies. While the federally employed engineer performed the same type of

work, he was paid an average of 12 to 26 percent less than his counterparts—even with a 20 percent COLA adjustment.

It would be my hope that the initiation of a special locality pay system will be seriously considered by this subcommittee here this morning. Such a system, which I understand is allowable under current provisions of law, could go a long way toward addressing some of the very valid and serious concerns of Federal employees in Alaska.

At the same time, I want to go on record as opposing any move which would further exaggerate the differences between Federal and private sector salaries in Alaska, and I hope that the subcommittee will remain mindful of that consideration in its continuing deliberations.

Mr. Chairman, this concludes my prepared remarks. Once again, I appreciate the invitation allowing me to join these discussions this morning.

Senator STEVENS. Thank you, Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

Senator STEVENS. Mr. Gould, you said that the Government already pays special rates to some occupational groups for recruitment and retention purposes. What groups are those?

Mr. GOULD. We have a list of some of them.

Senator STEVENS. Mr. Eickmeyer.

Mr. EICKMEYER. Yes, sir. Most recently, in January 1981, OPM issued a letter which set special rates for 12 occupational series in Anchorage. Some of these are secretaries, nurses, dental assistants, medical technicians. In addition to these 12 occupational series, there are some other categories where the rates are worldwide or nationwide, and some of these include the engineering categories that were mentioned earlier.

Senator STEVENS. Now that is not really locality pay; that is pay based on shortage of certain categories of job descriptions.

Mr. EICKMEYER. That is correct. These rates were established as being necessary to attract and retain the people.

Senator STEVENS. Would those special rates prevail over locality pay or would they be continued in the locality pay, do you know?

Mr. EICKMEYER. If locality pay were set, it would seem special rates could be eliminated.

Senator STEVENS. COLA is not considered for retirement purposes. Would locality pay be considered for retirement purposes?

Mr. EICKMEYER. That is correct. The locality pay would become the salary on which retirement benefits are calculated. This would be a benefit to the employees inasmuch as when they retire their annuities are based on their base salary without consideration of the COLA, and they no longer receive COLA. So they have quite a financial impact when they retire.

Senator STEVENS. It has a great deal to do with whether employees can retire in Anchorage after being employed there for 25 or 30 years, in my opinion.

Mr. GOULD. Very much so, Mr. Chairman.

Senator STEVENS. I am going to print in the record a listing of these positions which are entitled to special pay rates. At my request you have given us a comparison for secretaries and account-

ants, and let me just read that, but we will print it in the record here so it can be understood if anyone wants to look at it.

[The information referred to follows:]

COMPARISON OF AFTER-TAX ANNUAL SALARIES OF ENTRY-LEVEL EMPLOYEES

Anchorage, Alaska

Secretary

U.S. Government (GS salary, October 1980)		Private sector (Average wages, August 1980)
$11,693 [GS-4/3 (note a)]	Base pay	$14,643 [$7.04/hour (note b)]
- 1,529	Federal income tax (single individual)	- 2,248
+ 2,046	17.5 percent COLA	-0-
$12,210	After-tax salary	$12,395

Accountant

$14,311 [GS-5/6]	Base pay	$19,822 [$9.53/hour]
- 2,170	Federal income tax (single individual)	- 3,778
+ 2,504	17.5 percent COLA	-0-
$14,645	After-tax salary	$16,044

a/Secretaries and accountants in Anchorage are eligible for special pay under 5 U.S.C. 5303.

b/Wage rates for selected occupations published by Alaska's Department of Labor.

Senator STEVENS. The salary you note for a GS–4/step 3, and that is the special salary for secretaries in Anchorage, the base would be $11,693; Federal income tax $1,529. Add to that a 17.5-percent COLA and the after tax salary would be $12,210. If you had a private sector locality pay concept, the private sector wage for August 1980—the other was October 1980, approximately the same time—was $14,643 as based upon the Alaska Department of Labor's publications; Federal income tax at $2,248, with the net after tax of $12,393, which would be higher than the amount with the present COLA.

For the accountant, GS–5/step–6, $14,311, less income tax at $2,170, and COLA of $2,504, for a net after-tax salary of $14,645. Compare that to the Department of Labor's analysis of our accountants of $19,882, less Federal income tax of $3,778, with a net after-tax salary of $16,044—almost $1,500 more based upon locality pay.

Would only those occupations that have special salary rates come out in that fashion? Those are two that do have special rates in Alaska.

Mr. GOULD. Those that don't have special rates would be even worse. There would be a bigger difference. I think this highlights the problem you are faced with now. The salaries in the private sector there are very high, and even with the COLA and the spe-

cial rates the salaries of the Federal employees are still lower. It makes a strong argument for using locality pay as a basis for compensating those employees.

Senator STEVENS. Tell me about the locality pay as you envision it in your recommendation. Would that be adjusted annually or semiannually? How would it be adjusted to localities?

Mr. GOULD. As we have said, S. 838 would provide for locality pay. OPM would make an annual adjustment based on BLS surveys that are adjusted for each locality. It would apply not only to Alaska, but it would apply to all the areas in the country. Some areas would be higher than the national average, some would be lower, depending on the actual pay in those localities.

Senator STEVENS. Your recommendation doesn't just cover special categories of jobs; it would cover all Federal employees in the locale with comparability pay.

Mr. GOULD. That is our position, that pay in the locality should be established based on the employment in that locality.

Senator STEVENS. My understanding is that could be done in an area on an experimental basis. Have you ever recommended that, that it be tried anywhere?

Mr. GOULD. No, we have not, but it certainly could be done under the demonstration project authority that was granted in the Civil Service Reform Act. I think the only restriction there is it can't apply to more than 5,000 employees. If it were to be in a large area, you might have to go back and ask for special permission from the Congress to do that. It does sound like a good idea to try this, particularly with the pay reform bill being pushed by the administration for the entire country.

Senator STEVENS. Would your recommendation cover military employees in Alaska also? What is your recommendation about the military?

Mr. GOULD. At this point we don't have a specific recommendation for the military. We are looking at that methodology.

Mr. Eickmeyer, do you want to add anything about where you stand on the study?

Mr. EICKMEYER. We are looking at the methodology for setting the COLA rate for military in Alaska. We are not studying the military pay as such on a locality basis. At the present time there are no military pay principles established which state on what basis military personnel should be paid.

Senator STEVENS. I intend to go into this more with OPM, but one of the things that bothers me about the current system is some of the items that go into competition here in the District. Have you ever made a study of precise items that go into determining the base as far as the COLA is concerned here in the District under the civilian statute? If you haven't, that is all right. I know OPM has at my request.

Mr. HULTGREN. No, Mr. Chairman, we have not looked into that.

Senator MURKOWSKI. Mr. Chairman——

Senator STEVENS. Do you have any questions?

Senator MURKOWSKI. On that particular question, perhaps this is the wrong group to address it to, but I fail to understand why we continue to base it on the Washington, D.C., base. Why isn't it

based on an area more representative in the country for comparative purposes?

Mr. GOULD. The base was established in the law in 1948.

Senator MURKOWSKI. It is in the law. So the law would have to be changed.

Mr. GOULD. The law would have to be changed to change the base. If you go to the national average, there would be other cities in the United States that would be in the same comparative position as cities in Alaska. Then you would have to deal with how you handle those cities as well. Boston, for example, is much higher than the national average.

Senator MURKOWSKI. Well, that probably, in my opinion, isn't representative.

Mr. GOULD. I am not suggesting it be used as a base. The employees there would be in the same relative position.

Senator MURKOWSKI. You have answered my question. It is in the law.

Senator STEVENS. If we took the military test of composite average, there would be other cities that would qualify in terms of being 25 percent over the national average.

Mr. GOULD. I don't know if it would be 25. It certainly would be enough under COLA to be entitled to compensation if the law authorized. The law now only authorizes it in Alaska, Hawaii and other nonforeign territories.

Senator STEVENS. Thank you.

Do you have any other questions?

Senator MURKOWSKI. As far as initiating an occupational comparability pay system, you said you had an experimental authority up to 5,000 and you could initiate that as a test. Is that correct?

Mr. GOULD. OPM has the authority, we do not.

Senator MURKOWSKI. To change again the procedure to occupational comparison, that would take a change in the law, too. Is that right?

Mr. GOULD. The change to the occupation, the special rates?

Senator MURKOWSKI. Yes. In other words, would it take a change in law to initiate a pay system wherein one person in the Federal sector doing the same job, as the example was given, and the person in the private sector would be similarly compensated?

Mr. GOULD. OPM now has the authority to establish special rates where there is a recruiting and retention problem, and in the two examples that the chairman read there are special rates established for secretaries and for accountants. The question is whether or not in that particular area the rates are high enough. OPM is allowed, for example, at a grade 4, to establish the entry level at step 10, then add 10 steps above that.

Senator MURKOWSKI. That is not part of our experimental 5,000?

Mr. GOULD. No.

Senator MURKOWSKI. That is just an emergency authority?

Mr. GOULD. That is the authority they have now.

Senator MURKOWSKI. So in Alaska the only way it could occur across the board is if you could get personnel to fill those positions.

Mr. GOULD. That is correct.

Senator MURKOWSKI. That is not equitable for those people who have been in government service a long time and have a lot to lose by basically going out and resigning the position.

Mr. Chairman, it would seem to me that the occupational comparison certainly has merit. How we get there from here is something I am not conversant on.

Senator STEVENS. We will ask Dr. Devine that later.

Let me ask: Have you ever done any studies of whether the special rates did in fact assist in meeting the problem of recruitment and retention?

Mr. GOULD. I can't recall that we have done any special studies on that. I know that at one time the General Accounting Office, particularly when we were hiring accountants, had special rate authority from OPM that did help us tremendously in our recruiting. But that was nationwide, not the particular location.

Senator STEVENS. We have about 5,000 employees in Anchorage. Would it be, in your opinion, a significant trial if we did get OPM to try locality pay in an area of that size?

Mr. GOULD. I believe it would be a useful experiment, and I would encourage you to explore that with OPM, perhaps ask them to come in with a proposal for a demonstration project.

Senator STEVENS. How long a period would you think would be necessary to get a good reading on whether it would affect recruitment and retention and to determine the impressions of employees involved?

Mr. GOULD. Well, I am sure that you will get an immediate employee reaction, particularly if the results are as indicated here, that it would raise their salary. I am sure you would get an immediate reaction to that. I am sure you would see your attrition rates go down dramatically and quickly. I do not think it would take a long period of time to see an impact. To make the full study and report back on long-term impacts, you might want to run the demonstration for a longer period of time.

Senator STEVENS. Thank you very much.

Did you have anything to add?

Mr. HULTGREN. No, sir. Thank you.

Senator STEVENS. Thank you very much.

Mr. George Hobt.

Ms. MCMICHAEL. He is not here right now.

Senator STEVENS. Do you want to take his place?

Ms. MCMICHAEL. Yes.

TESTIMONY OF JANE McMICHAEL, DIRECTOR, LEGISLATIVE AND POLITICAL AFFAIRS, ON BEHALF OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, ACCOMPANIED BY GEORGE HOBT, DIRECTOR OF PAY AND CLASSIFICATION, AFGE; JIM LYNCH, REPRESENTATIVE, AFGE; AND HELEN GIROUX, REPRESENTATIVE OF AFGE LOCAL 1712, FORT RICHARDSON, ALASKA

Ms. MCMICHAEL. Senator, I have asked Helen Giroux, whom you have met, to join us at the table.

Senator STEVENS. Yes, we have her listed as the next witness.

Ms. MCMICHAEL. And Jim Lynch, who represents all of our members in Hawaii, Guam, Puerto Rico, and the overseas areas, other noncontiguous areas as well.

Senator STEVENS. I did discuss the statement yesterday or the day before with your national president, Mr. Blaylock. I am happy to see you are here this morning. We had a long discussion as well last night about this, and he is very concerned about this project and certainly very concerned about the problems of our Federal employees in Alaska.

Ms. MCMICHAEL. I think what I would like to do is read Mr. Hobt's statement and take any questions you have.

Mr. Chairman and members of the subcommittee, I welcome the opportunity to be here today and represent the Federal employees of AFGE who are part of the Anchorage Council and all of the Federal employees in Alaska who are represented by our organization.

As you know, AFGE represents 750,000 Federal employees throughout the world, and virtually all of the Federal employees in the State of Alaska. Our members serve in all agencies of government. providing essential services and protecting the security of the Nation. In fact, one-third of the employees in the State of Alaska are employed in agencies which are directly or indirectly involved in the defense of the country.

I want to begin my testimony by thanking you, Mr. Chairman, and the other members of the subcommittee for having the foresight and wisdom to hold these hearings in an attempt to solve what has become a problem of critical proportions to a work force which is understaffed and undercompensated. It is rare on Capitol Hill these days to find a Senator who is willing to look for constructive solutions and alternatives involving the expenditure of funds, which do not cut pay and benefits. Because of AFGE's involvement in the pay-setting process through its participation in the Federal Prevailing Rate Advisory Committee; the Department of Defense, Veterans' Administration and NASA Wage Committees; and its past participation on the Federal Employee Pay Council, there is no other union in the country more aware of the disparity between Federal sector and private sector compensation, and we are pleased to be here today to discuss the adequacy of the cost-of-living allowance program as it is administered for Federal employees in the State of Alaska. To do this, however, we must begin with a quick look at the overall status of Federal employees nationwide.

In recent years, annual pay caps have lowered salaries of all Federal workers—not just those in Alaska—making recruitment and retention of a capable and efficient work force extremely difficult. Additionally, the morale of Federal workers has dropped to a new low under the constant political attacks by the last four administrations.

For those Federal employees in Alaska, these systemic problems are compounded by decreasing buying power in the local marketplace, in the face of a tremendous statewide economic boom, generated in part by construction of the Alaska Pipeline and the development of Alaska's vast oil reserves. And while the boom is putting money into the pockets of the neighbors of Federal employees, it is quickly emptying the pockets of the Federal worker.

Federal managers in Alaska are faced regularly with a demoralized general schedule work force whose salaries have dropped far behind those of their private sector counterparts. Additionally, turnover has increased as GS employees have moved to more lucrative private employment or to Federal wage system jobs, where salaries have better kept pace with the rapidly expanding private sector salary movement.

In addition to basic economic problems which impede good management, there are a series of administrative problems which obstruct fair and equitable treatment for all Federal employees who receive cost-of-living allowances because their work location is in noncontiguous, nonforeign areas outside of the contiguous 48 States.

One factor in this complex problem is the use of differing methodology by the three agencies currently establishing cost-of-living allowances. Although the three agencies, the Departments of State and Defense and the Office of Personnel Management, have a similar goal—to enable all Federal employees to have the same buying power—the methods and surveys used to determine that buying power are different. Because of this, Federal employees in Alaska saw the percentage figures used to set their cost-of-living allowances fall earlier this year, while the percentages established by the Defense Department increased. The inclusion of environmental factors, such as the cost of heavy clothing, accounted for the increases in the Defense survey—but such factors were not included in the OPM survey. We would like to suggest, however, that the cost of a warm jacket is just as high for the Federal employee as it is for someone who serves in the military.

Additionally, the three agencies use different areas on which to base the COLA rates. While Defense uses a nationwide survey, OPM is required to use Washington, D.C., as the basis upon which COLA is determined for all employees in nonforeign areas. As we know, there is little similarity between the work force and work conditions in Washington, D.C., and those in the outlaying areas in Alaska. In fact, elevated prices in Washington, D.C., serve to keep the COLA percentages down, while in real terms the Federal employees serving their country in the far northern and eastern areas of Alaska may find themselves paying 50 to 100 percent more for basic goods—not to mention services. Our own records indicate that more than half of the State's work force in fact lives outside of the Anchorage metropolitan area.

This last observation points to what is the final and perhaps most troublesome problem, the established maximum allowances—which do not reflect the reality of the differing employment and housing conditions of the Alaska Federal work force which may be separated in some cases by hundreds and thousands of miles from each other and the nearest marketplace, the source for those goods and services.

As the largest union representing employees in the state, we would welcome a change in practice, if not policy, concerning the establishment of a compensation system which would serve the needs of both the Alaskan employees and their employer, the U.S. Government.

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There are those that would argue that unique problems found by employee and employer alike in Alaska could be solved through the passage of the so-called pay reform package through the institution of locality pay, staffing differentials, special schedules and the compassion of OPM.

We would like to suggest that the passage of S. 838 would be a serious mistake on the part of this Congress. It is a bad piece of legislation. It is complex, poorly drafted, untested and ill-defined. In addition to making major changes in the establishment of rates of pay at the local level, it would also radically restructure the entire pay-setting process, affecting millions of Federal employees, not just those in Alaska.

After serious review of the plan we are frankly concerned that in fact Federal employees in Alaska will fare far worse under the pay reform package. Clearly, the problems of Alaska's Federal employees require unique and carefully designed solutions to a unique set of circumstances.

For many years AFGE has called for such solutions. Your interest and concern provide an opportunity to at long last deal in a constructive way with the underpayment and unfair compensation of workers in the region.

I understand that this subcommittee will call upon OPM for the creation of a demonstration project in Alaska which would address these questions. AFGE supports this proposal, cautioning that a project of this type in Alaska will provide data that is of particular use only in this State, and application to other sites should not be considered without the following provisions:

First, the system should be based on true cost and salary levels and movement in the State of Alaska, not on the standards of a community thousands of miles away.

Second, the differences within the State should be considered and factored into the final program.

Third, the system should be fair and equitable, not excluding certain classes of employees at the whim of an unsympathetic management.

Last, it should be negotiated with the appropriate labor union.

The prospect of a joint venture of this kind is both refreshing and exciting. We at AFGE look forward to participation and progress in the development of a fair and efficient model which will serve employees today and tomorrow.

I am happy to say that Mr. Hobt has joined us here this morning, so he and I would be glad to answer any questions that you have.

Senator STEVENS. Well, I thank you very much for the statement.

Helen, do you have any statement to make?

Ms. GIROUX. Yes, Mr. Chairman.

As it has already been established, I am Helen Giroux, and I am employed by the Department of Army at Fort Richardson, Alaska. I am representing four AFGE locals in Anchorage, with a total of more than 2,000 members.

The State of Alaska itself has more than 14,000 Federal employees. I might add that basically why I am here right now is because of the concern of Federal employees about losing the cost-of-living allowance.

The subject of cost-of-living allowance is very important to Federal employees in Alaska. As a matter of fact, it was through the efforts of the late U.S. Senator Bob Bartlett, at the urging of AFGE, that COLA was initiated in 1948.

For the most part, while the COLA payment in Alaska remained at 25 percent, there was little questioning of what procedures the Civil Service Commission—now OPM—used in determining COLA. However, in early 1975, the CSC issued an order reducing COLA in Anchorage, and for the first time divided the State into three areas—this was Anchorage, Fairbanks, and Juneau—for COLA purposes.

In 1976, another COLA cap was administered to the State in that COLA was paid or not paid depending upon the status of the employee—military dependency, and so forth.

In both cases lawsuits were filed challenging the COLA cuts, which met with limited success.

In 1980, another COLA cut was made in Anchorage, reducing the COLA in Anchorage to 17½ percent. Another lawsuit has been filed by interested employees. It is still in district court.

The employees in all these cases are challenging the OPM methodology in determining the COLA rate. They are also challenging the decision of OPM to withhold survey information. The employees feel that OPM has not carried out its statutory and regulatory responsibilities in failing to give consideration to the differences between the two localities that Congress and its own regulations require to be considered. The employees feel OPM studies are not comprehensive or even valid and even show bias against the Alaskan employee.

Previous to 1979, OPM commissioned COLA surveys by the State Department. Since then the surveys have been conducted by the U.S. Department of Labor, Bureau of Labor Statistics. The COLA rate is presumably based by OPM on the BLS Consumer Price Index. The CPI only shows how prices in the target areas have fluctuated; it does not tell whether it costs more or less to live in one or the other areas. However, there is no way the employee can challenge OPM's determination of COLA until it reveals the statistics and the source of these statistics in both Washington, D.C., and Anchorage, Alaska, and gives the employees a fair review. We demand that opportunity.

The biggest loser in COLA cuts is the lower level GS employee—GS-8 and below. These positions are usually occupied by the minorities—women, blacks and Natives. And I would like to add that this is the category where the displaced homemakers are, the single parents, and the further cut in COLA creates the problem of how they are to pay the child care fees that are necessary for them to work. These are the people who can least afford COLA cuts.

At this time AFGE Anchorage Council of Locals takes the opportunity to invite this committee to visit Alaska and review personally the situation.

Thank you.

Senator STEVENS. Thank you very much.

I understand the AFGE's position on the pay reform proposal, and we will undoubtedly have hearings on that proposal later. I wouldn't want this hearing to be confused with that. But we are

really interested in methodology and whether or not it would be advantageous to have an experiment in the Anchorage area dealing with locality pay for Alaska to see whether it would help solve some of the problems that are related to Hawaii and Alaska under the current statute.

In terms of that, it is my understanding that AFGE as the representative of the majority of the employees in that area would not object to that concept if the conditions you set forth were agreed to by OPM. Is that right?

Ms. McMICHAEL. That is correct, Mr. Chairman.

Senator STEVENS. Has AFGE got any facts or has it done any studies concerning the items that go into the COLA determination as far as the Washington base is concerned now? For instance, I heard there is a figure for recreation. We are going to get to this later. And it does cost a great deal of money for recreation in this area. Most of our activities in Anchorage are not expensive in terms of recreation. And I wonder about the items such as that that go into the determination of what it costs to live in Washington.

Ms. McMICHAEL. It is my understanding we have done a superficial review, but I would like to have Mr. Hobt, who is the director of our pay and classification, speak to that.

Senator STEVENS. Good morning.

Mr. HOBT. Good morning. I apologize for being late. It wasn't that I wasn't trying.

We have a great deal of objection to using Washington, D.C., as the base. I think that is one of the basic problems we have had ever since the system started. First of all, you don't normally recruit people from Washington, D.C., to work in Alaska.

Senator STEVENS. I have always thought that the base for Alaska should be Seattle, and for Hawaii, San Francisco. These are better representatives to be base because these areas constitute the recruitment area if we go outside of the State for employees.

Mr. HOBT. That is correct. The DOD and State Department survey, as I understand it, takes a nationwide average, which would be a much more reasonable base. That is what the average general schedule employee faces as far as cost outside of Alaska, and that would be a reasonable basis I think.

But here we have an entirely different grade structure. You have an average grade structure that is probably two to three grades higher than the nationwide average, and it is probably three or four grades higher than the average grade in Alaska at least. When you do surveys based on how those people live, you have an entirely different situation. It is not a fair basis for comparison, I don't believe.

Of course, the other objection that I would have, and I understood that there was some testimony earlier on the spendable income approach, and I have some objection to that. I would see where that could end in disparate treatment of two employees at the same grade. What you are really trying to do is compensate people for the job they are doing, not their personal home situation necessarily. That would get into a situation where an employee, say, bought their home 30 years ago and had very little house payments, this type of thing, and would have a much different spend-

able income. I don't know how you would come up with what is fair spendable income. I think you would have the same problem there as with adjusting COLA.

Senator STEVENS. I question that, too. Alaska has the highest per capita death rate in accidental deaths in the Nation, and we are basically insurance poor. All of us carry more insurance to protect our families than we would in the District of Columbia. Yet spendable income would exclude the cost of insurance. And particularly where you have a very young population—our average age is 23, the average age in Washington, D.C., is somewhere around 35—there is a difference in terms of what you spend your money on. I never could see this spendable income comparison being valid either. It seems to me we ought to get some basic indicators that are the same if they are going to use the District of Columbia, and take a few, or however many would be necessary, to establish a true comparison of differences and find items where there is approximately the same amount of money spent in Alaska as there would be in the base area and then determine the difference based upon some agreed upon factors. Either that or go to a geographical area situation, such as Seattle would be for us. If there were any areas that were comparable in terms of costs, it would be the Seattle area. But Seattle has a cost of living which is decidedly less than the District of Columbia. So it is a very difficult problem.

Mr. HOBT. One other point that I would like to make is that our figures indicate a good portion of the employees involved here are outside of the populated areas. And those in the outlying area, their living costs, there would be no comparable private sector area to measure their costs. Of course, that is not taken into consideration when you just survey heavily populated areas and then apply a rate in the outlying area. It is my understanding that those people out in the boondocks, their cost of living is twice that what it would be in Anchorage, for example. That is what I have been told. So that is why we think it needs to be something a great deal more flexibly applied and looks at the real situation, rather than limited to a fixed percentage or a fixed formula that nobody seems to be able to explain or want to explain or understand.

As far as the pay reform bill, one additional reason we would object to that as being a solution is that much of the authority that is in the pay reform bill that they would apply to replace COLA, OPM or CSC has had that authority for years. Now I understand there are a few places where they have applied special rates in Alaska. I wasn't aware of those. But they have had the authority to solve this problem in the absence of pay reform, and they have been very reluctant to do so. They are very reluctant to apply special rates. And we have always had a running battle over this thing, whether the law means that you are supposed to pay rates to allow you to recruit and retain people, or it is always their view—they speak of a recruiting and retention problem. It turns a little bit on how you look at the word "retain." It is our view that you don't take actions against employees to the point to see how badly you have to treat them before they leave, then get to the point where you see if you have got a retention problem. I think you have to act before people leave and get demoralized. Under the law, that is what it intends, rather than you have got them all

working for the private sector and retired and say, "My gosh, you have a problem. Maybe we ought to pay them more money." They have been very reluctant to use what authority they have.

Senator STEVENS. They have used it in some special categories. One of the difficulties that we have is in the area of the Postal Service. Their turnover is alarming now in Anchorage, and particularly in Fairbanks. The turnover in the Post Office is so great that it is really affecting morale and performance and productivity.

Mr. HOBT. I know the National Guard Bureau advised me a couple years ago their turnover in the general schedule was a 100 percent or better every 6 months, and they were having some very serious problems keeping jobs filled, let alone with qualified people. That is another factor you have to take into consideration. You can get people to take a job, but just filling the slot with a warm body is not enough. You need a qualified person in there and somebody who is going to do you some good.

Senator STEVENS. Ms. Giroux, we have not asked for a reaction yet from your four locals as far as the locality pay test in Anchorage, but I do intend today to ask the OPM to examine the possibility of conducting an experiment in the Anchorage area pursuant to the existing law, to set up a locality pay concept for the Anchorage area. It could not be done for the whole State because the statute is limited and, as a matter of fact, Anchorage is the only area that is getting less than the 25 percent in the State. So it would be a legitimate test to see whether this locality pay would better suit the needs of the Anchorage area.

But I would appreciate it when you go back if you would discuss it with the representatives of the four locals. That would result in locality pay becoming taxable, and it would be a temporary experiment to see how it worked. I think it could be extended until we could get the statute changed if it proved to be a workable solution for the Alaska problem. I would appreciate it if you could discuss that and let us know the reaction of the locals to the proposal.

Ms. GIROUX. And what time frame would it be?

Senator STEVENS. That would have to be really determined by OPM when they do it. We are asking them to set up a proposal, and to discuss it with the employees in the area and explain what we are trying to do. As I have pointed out in a letter to Dr. Devine, and the two other members of the Alaska delegation have joined me, we think something must be done to counter the reaction that has taken place in the Anchorage area since the reduction in COLA, particularly during the period of time when military was increasing their COLA and the cost of living was going up in Alaska at a substantial rate. If you could let the committee know after you have the discussion, we would appreciate it.

Ms. GIROUX. Yes, sir.

Senator STEVENS. I do hope you thank Ken Blaylock, and we appreciate all of you being here for the hearing this morning. Thank you.

Mr. Kistler.

TESTIMONY OF FREDERICK A. KISTLER, DEPUTY ASSOCIATE DIRECTOR, COMPENSATION GROUP, OFFICE OF PERSONNEL MANAGEMENT, ACCOMPANIED BY JEROME D. JULIUS, ASSISTANT DIRECTOR FOR PAY PROGRAMS

Mr. KISTLER. Good morning, Mr. Chairman.

Senator STEVENS. It is nice to have you back with us, Mr. Kistler. You have given a very comprehensive statement. I do appreciate the work you have done.

Mr. KISTLER. Mr. Chairman, thank you for inviting me to appear this morning to discuss the cost-of-living allowance program. I have with me today Mr. Jerry Julius, who is a key member of our compensation group. He is our assistant director for pay programs. He directly supervises the special rate division which does the technical work on this program and he is the person who has the final technical responsibility for the COLA survey. To the extent the committee wants to get fairly deep into methodology this morning, I will be relying very much on Mr. Julius to help us through that.

The Office of Personnel Management administers the cost-of-living allowance program under section 5941 of title 5, United States Code. This section of law authorizes two kinds of allowances for certain employees in Alaska, Hawaii, Puerto Rico, and U.S. territories and possessions. The two types of allowances are (1) the cost-of-living allowance, based on living costs substantially higher than in the District of Columbia, and (2) post differentials, which are allowances intended as a recruitment incentive to attract employees to areas where conditions of environment differ substantially from conditions of environment in the 48 contiguous States. These allowances may be paid to employees under the General Schedule, under VA's Department of Medicine and Surgery pay schedules, and to Postal Service employees. Cost-of-living allowances and post differentials may both be set as high as 25 percent of basic pay, but no employee may receive more than 25 percent, even if eligible for both types of allowance.

Of these two types of allowance, it is the cost-of-living allowance that has caused quite a bit of controversy, and is the subject of the hearing this morning.

The key to understanding this program—and to understanding the controversy surrounding it—I believe is to recognize that the statute does not base the cost-of-living allowance in each area on the actual cost of living in that area, but instead the allowance is based only on the difference between the cost of living in the area and the cost of living here in Washington. This linkage means that the allowance in an area may fall even while the cost of living in that area is going up, just because the cost of living in Washington is going up even faster. This is very hard for affected employees to understand, and has, in our view, been largely responsible for the controversy surrounding the program.

We have devoted great effort to making certain that our determinations of cost-of-living allowances will be accurate. We have prepared a detailed explanation of our methodology which appears at the end of my statement, and which I would appreciate having included in the record this morning, with your permission.

Senator STEVENS. It will be, Mr. Kistler.

Mr. KISTLER. For now, though, I would just like to highlight a few aspects of our COLA measurement process.

The methodology is designed to measure the price and cost differences between Washington, D.C., and each allowance area for a wide range of consumer goods and services. Price and cost data are collected on over 140 consumer items, divided into 14 expenditure categories. The items surveyed and the weights given to each item are derived from the 1972–73 consumer expenditure survey of the U.S. Bureau of Labor Statistics. A consumer expenditure survey reflects the manner in which families actually spend their money on consumer needs and on such other items as taxes, social security payments, and the like. The program is designed to look only at how people actually spend their money, rather than making any judgments as to idealized spending patterns.

Within each expenditure category, a number of consumer items have been selected for pricing to represent all the items within that category. It is neither practical nor necessary, for example, to price every article of clothing that might ever be worn by members of a typical family, since all we are interested in is the relative difference in clothing prices between each allowance area and Washington, D.C. Thus, the items selected for survey are those which are consumed most frequently by family units, have a reasonably broad definition, and are generally available in Washington, D.C., and in the allowance area. During the price survey, retail outlets are visited by trained data collectors and price data are obtained on the basis of frequency of consumer purchase for most items. This approach reflects the buying practices of consumers in each allowance area as well as in Washington, D.C.

The COLA methodology is the result of more than 25 years of experience. It is based on accepted economic principles and statistical techniques, and has been updated and refined from time to time to reflect changing circumstances, such as revised consumer expenditures data. The most recent general updating took place during the 1980 review period. The basic methodology we use is also used by the Department of State for employees in foreign areas and by the Department of Defense for military personnel in both nonforeign and foreign locations. It is used as well by at least two large private consulting firms specializing in overseas compensation. The results of our methodology have proven to be consistent with other indicators of changes in price levels, and we are convinced this methodology provides a reasonable measurement of place-to-place living cost differences.

While we are, therefore, satisfied that our methodology carries out the requirements of the statute as well as is practical, we believe that the entire program is no longer a reasonable way to compensate employees in the areas involved.

When the COLA statute was enacted in 1948, both the economy and the Federal personnel system were very different. In general, the local labor markets in the COLA areas were relatively limited, and the Government had to recruit most of its employees for specialized jobs from the 48 contiguous States. While there was little precise data available, it was recognized that the cost of living was high in these areas because most consumer goods had to be shipped in from the 48 States. The Federal Government's pay system at

that time was designed for the departmental service here in Washington, with very limited application in the field service outside Washington. When these factors were considered together, it was quite reasonable to decide to adjust the Federal pay rates for application in these areas by the difference in living costs between each COLA area and Washington, D.C.

In the 30-plus years since then, however, there have been a number of changes that have increasingly called this program into question. In 1948, there was no expectation that inflation would come to be a lasting factor in the economy, or that there would be fluctuations in the allowance rates because of significant differences in the rate of inflation in the COLA areas and, more particularly, in Washington. Since 1948, the local economies in the COLA areas have grown tremendously, and there are now significant local private labor markets in which the Federal Government must compete with other employers. In addition, there has been a conceptual change in Federal compensation policy—we now view the principle of comparability with other employers as the soundest basis for determining the level of Federal compensation. Since there is little correlation between living costs and pay levels in different areas of the country, using living cost differences as a pay-setting device in the COLA areas amounts to mixing apples and oranges.

For these reasons, we believe the COLA program should be eliminated, and replaced by a combination of locality pay and an expanded special rate authority proposed in the administration's pay reform bill, now pending before the subcommittee as S. 838. In the COLA areas, as in the rest of the country, pay would be determined on the basis of the relative level of pay in the area compared with national average pay. If necessary for the recruitment and retention of needed employees, these locality pay rates could be further increased under the more flexible special rate provisions.

We believe that this new approach would be much preferable to the cost-of-living allowance program in its recognition of modern economic realities and conditions in the COLA areas, and would, once it has been implemented, prove to be much more understandable and acceptable to the affected employees.

Thank you very much for allowing me to present this statement. Mr. Julius and I would be happy to try to answer any questions that the committee has.

[Supplemental statement of Mr. Kistler follows:]

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United States of America
OFFICE of PERSONNEL MANAGEMENT
Allowances and Special Rates Division

Statement on the Preparation of Cost of Living Allowance Indexes

Introduction

This statement has been prepared to explain how the cost of living allowances for an area are determined under the Cost of Living Allowance (COLA) program. It explains the entries on the summary tables which show average prices and costs and other information used in computing the comparative price indexes used for fixing the allowance rates. A detailed example is included to show the index computation for a typical expenditure category.

A set of summary tables should be used for reference when reading this statement.

Background

One of the most important points to bear in mind about the allowance is that it is intended to compensate employees for major differences in prices and costs between Washington, D.C., and each allowance area. The allowance rate is not based on living costs in an allowance area alone, but rather it is based on the extent to which costs and prices there exceed Washington, D.C., costs and prices. This means that the changes in the allowance rate are a result of the relative changes in both the allowances area and Washington, D.C. The allowances may increase, decrease, or show no change based on this relationship, and will not necessarily reflect conditions in the allowance area alone.

The price indexes shown in the accompanying summary tables are comparative price indexes. They represent inter-city comparisons of more than 100 different items at the same point in time for a selected shopping list of goods and services. Because the average prices are compared against Washington average prices for each survey, any changes in the resulting price relatives between surveys are a result of price movements up or down in either the allowance area or Washington or both. Year to year comparisons cannot be made with these price relatives or any of the total indexes because changes in the Washington, D.C., base are not shown.

The prices for each item are generally the average of six prices for each survey item, based on the volume seller, second volume seller, and economy brand for each item in each of two establishments. The price ratios shown are based on the ratios of the average prices in the allowance area to the average price in Washington, D.C., plus any shipping cost factors. (These shipping factors are not shown in the summary tables, so calculations from the published average prices may not equal the published indexes for some items.)

The price ratios are combined into category indexes, and these indexes are combined into the final index by using weights based on average household consumption patterns. Price data are collected from those retail outlets most frequently used by Federal employees, including supermarkets, clothing stores, appliance stores, gas stations, insurance offices, drug stores, and theaters, and, where applicable, from military commissary and exchange facilities. The names of these retail outlets are obtained from living pattern surveys conducted periodically in each allowance area and in Washington, D.C. In total about 600 prices are obtained on the various consumer goods and services for each survey area.

Computation of Indexes

The building blocks of each index are the average prices or costs for each of the items. These prices are compared with the respective Washington average prices to make price relatives or ratios for each item. These individual item ratios are combined into a category index by a weighted average. There are fourteen major expenditure categories which are used to group the various items together. The weight for each item in a category is proportional to the amount spent on that item and similar items compared to the amount spent for the whole category encompassing that item; the weights are derived from average household consumption expenditure data obtained from Bureau of Labor Statistics surveys. The weights used since February 1980 were derived from the 1972-73 consumer expenditure survey. The weights for the expenditure categories are shown in Table 1. The current weights based on the most recent data are in the second column, and the previous set of weights is in the third column.

Table 1. Expenditure Categories and Expenditure Weights

Expenditure Category	New Weights	Previous Weights
Meats, Eggs, & Fats	4.4	7.2
Groceries	4.6	6.0
Fruits & Vegetables	1.8	3.5
Tobacco-Alcohol	2.6	3.3
Personal Care	3.0	3.7
Furnishings and Household Operations	11.7	8.7
Clothing	8.1	9.8
Medical Care	5.1	7.6
Recreation	10.7	6.7
Transportation	10.3	9.7
Domestic Service	1/	2.2
Food Away from Home	5.7	5.9
Auto Purchase	9.7	5.4
Housing Maintenance 2/	1.6	---
Housing	20.7	20.3
Total	100.0	100.0

1/ Now included in "Furnishings and Household Operations"
2/ New category

General Method of Computation

The general method used in constructing these living cost indexes is a series of weighted averages of price ratios. There has been no change in this survey methodology for several years. A two-stage method is used to relate the average allowance area prices for an item to the Washington average prices. Weighted price ratios are first computed and are then compiled into a weighted category index. The 14 category indexes (including housing) are then compiled into a weighted total index.

Calculation of average prices

In order to have the same set of items priced in all areas, a standard pricing form is used. For each item on the list, six prices are usually obtained: three prices for each item from each of two establishments (grocery stores, drug stores, etc.). The prices are normal everyday prices, not seasonal or sale prices. In some cases, such as fruits and vegetables, more than 6 prices are averaged; and there are instances where, because of collection problems, fewer than 6 prices are available. In this case, substitute prices or alternate stores are used, or sometimes special procedures are used to impute missing information. The price data obtained are computed into a simple average price used as the representative price for each item in the survey. All prices collected include any applicable sales or other taxes as they are included in or added to the retail prices fixed by the business establishment.

Price ratios

The price ratio is generally the allowance area average price divided by the Washington average price. For some items, this price ratio also incorporates factors for shipping costs and usage of other shopping facilities. The shipping cost ratio represents the cost of goods purchased outside the local area, that is, mail-order or catalog purchases including shipping costs. The proportion of purchases from local sources or from commissary and exchange facilities are combined with the res ective price ratios and incorporated in the item price ratio. Information on the use of various supply sources is gatnered from Federal employees in each allowance area and in Washington, D.C., on the periodic living pattern surveys. The most recent living pattern surveys were made in 1980.

Summary Data

The summary table provides summary data for the major data elements used in the computation of the comparative price indexes for each area. These summary data show the average price for each survey item, derived from the approximately 600 individual prices gathered during tne survey in each location. The price ratios incorporate in the calculations nearly 1,100 separate numbers for price relatives, shipping cost data and source of purchase data.

Computing the Overall Index

Example of Computation of Expenditure Category index

This example uses the "clothing" expenditure category and is based on data collected on Oahu, Hawaii, February 1980.

Table 2 below illustrates the category index computation. Multiply the ratio for each item by the weight assigned to that item. Do this separately for private retail purchases, shown as "Private Ratio" and for commissary/exchange purchases, shown as "Exchange Ratio". The aggregates of these computations are summed and divided by 100 to produce the category index.

Computation of category index - Clothing Expenditure Category

Item	Private Ratio	Weight	Agg.	Exchange Ratio	Weight	Agg.
1. Man's sport coat	122.8	10	1228.0	92.3	10	923.0
2. Man's suit	121.4	20	2428.0	92.8	20	1856.0
3. Man's shirt	125.1	10	1251.0	101.4	10	1014.0
4. Man's T-shirt	102.7	3	308.1	80.8	3	242.4
5. Woman's suit	41.2	8	329.6	35.6	8	284.8
6. Woman's skirt	109.5	23	2518.5	92.6	23	2129.8
7. Woman's slip	106.5	5	532.5	85.9	5	429.5
8. Woman's panty hose	107.7	6	646.2	85.7	6	514.2
9. Women's shoes	121.9	12	1462.8	102.7	12	1232.4
10. Boy's shoes	87.9	3	263.7	75.8	3	227.4
	Total aggregate		10968.4			8853.5

Category index based on Private Ratio = 10968.4/100 = 109.7

Category index based on Exchange Ratio = 8853.5/100 = 88.5

For some items on the summary table average prices, price ratios and weights do not appear. This means that these items were not available, especially where there are no commissary or exchange facilities. In those cases where no average price is shown, but there is a price ratio, the ratio was taken from the local private price ratio or a substitute ratio was used. If the two ratios do not match exactly, it is because of differences in shipping ratios between local private purchasers and commissary/exchange purchasers. If a weight is listed as zero (0), that item does not influence the category ratio. In such instances, the other item weights have been redistributed so that the total remains 100.

Computing the Overall Index

From the summary data provided in the table, an overall index can be computed for each allowance area.

First, compute the index for each expenditure category as explained in the example.

Next, compute the overall index by multiplying each of the 14 category indexes by the weight for that category (these are also shown on the summary table). The aggregates for each category are added together and the sum is divided by 100 to produce the final overall index.

In computing the overall indexes the two categories of housing cost indexes are combined with the two categories of price indexes to produce the four overall indexes (where applicable) used in setting the allowances for each area.

Housing costs

The housing cost portion of the COLA index measures the differences in the annual recurring costs of housing between Washington, D.C., and each of the various areas covered by the allowance program. The resulting housing index is a weighted average of the ratios of shelter costs by grade group in the allowance area to the corresponding costs incurred by D.C. area residents. Housing cost information is collected by questionnaire annually from employees in each allowance area. A survey is taken every five years from among employees in the Washington area to provide the base data for the housing indexes. In the intervening years, the base data are updated by using percentage changes in the Consumer Price Index for components of their shelter index. The most recent housing survey in Washington was done in February 1980.

The process of compiling an allowance area housing index is a straightforward process. Survey replies are first classified by housing tenure into three groups: Private renters, Federal renters, and homeowners. The "Federal renter" group consists of those employees whose agencies rent them dwellings as a consequence of their employment. "Private renters" and "homeowners" are those employees renting or purchasing their housing from the private sector market. The forms are then sorted within each of these three groups into eight grade groups based on the General Schedule grade scale: 1-5, 6-7, 8-9, 10-11, 12, 13, 14, and 15 and above.

For both private and Federal renters, average annual rental and utility costs are computed, totaled, and compared against Washington renter average annual costs by grade group. For homeowners the annual cost is made up of estimated mortgage interest payments plus utility costs, real estate taxes, homeowners insurance premiums, land rent and condominium fees. The average annual costs are totaled by grade group and compared against comparable grade group average costs from Washington. The resulting ratios are combined with the private renter cost ratios in proportion to the allowance area renters/owners distribution by grade group to produce the private renters and homeowners housing index for that allowance area. The Federal renters index is prepared separately by combining the Federal renters grade group ratios. Each housing index is combined with the indexes of the other 13 consumption categories to make up the final series of comparative indexes for the allowance area.

Based on an analysis of our program operation and in conjunction with the availability of more recent consumer expenditure data from the U.S. Bureau of Labor Statistics, some refinements have been incorporated into the index preparation beginning with the 1980 annual review period. It should be noted, however, that the basic economic and statistical methodology underlying the program has not been altered. The indexes are still computed the same way, that is they are base-year weighted averages of a series of prices and cost relatives, with Washington, D.C., as the base location.

Prices and costs on a wide range of consumer goods and services continue to be obtained directly from those retail outlets frequented by the majority of employees in each allowance area and in Washington, D.C. Recurring housing cost data are collected directly from employees.

Major improvements introduced this year are:

Updated Weights for Expenditure Categories. As shown in Table 1, the weights for the expenditure categories have been updated to reflect the most recent BLS consumer expenditure survey results. These weights express in percentage terms the spending on consumption goods and services of an average household. As can be seen from the table, households are spending relatively more of their money on housing, transportation, recreation, and furnishings and household operations, and relatively less money (as a percentage of consumption expenditures) on foods, medical care, clothing and personal care.

Updated List of Items Priced. The list of items priced was updated to include more popular items. Based on shifts in consumer preference more 10-speed bikes than 3-speed are now purchased and color television sets are more popular than black and white. These examples along with several others are included in this year pricing.

Expanded Housing Sample. The population from which housing cost data are collected has been expanded to include all employees without regard to sex or marital status, and all households without regard to size or length of occupancy.

Separate Pricing of Maintenance and Repair Items. A selected list of maintenance and repair items will be priced in retail outlets rather than by collecting data directly from employees on the housing cost forms as in the past. These items include paint, lumber, nails, electrical wire and other items typically used in regular dwelling maintenance and repair. The reason for this change is to reflect on a more regular basis in the index the price relatives for these recurring costs.

Future Changes. Evaluation of the COLA program is a continuing process and additional refinements may be incorporated from time to time as more or newer information becomes available or as better procedures are developed. For example, the Retail Price Schedule (the data collection form) is under review and a revised version will be put into use during the 1981 annual review year.

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U.S. OFFICE OF PERSONNEL MANAGEMENT
COST OF LIVING ALLOWANCE PROGRAM

ANCHORAGE 1980

AVERAGE ITEM PRICES, PRICE RATIOS AND
WEIGHTS USED FOR COMPARATIVE COST INDEXES

(Washington, D.C. = 100)

EXPENDITURE CATEGORY, ITEMS AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
MEATS, EGGS, & FATS						
Beef & Veal (lb)	4.00	4.65	116.2	3.35	93.5	38
Pork (lb)	2.33	2.40	103.0	2.37	102.1	11
Lamb and Other (lb)	3.04	3.72	122.4	5.37	159.8	8
Fish (lb)	2.53	2.69	106.3	2.69	106.3	9
Chicken (lb)	.78	1.46	187.2	1.42	184.0	13
Bacon (lb)	1.62	2.40	148.1	1.62	113.0	4
Canned Ham (lb)	2.81	3.07	109.3	1.76	74.3	5
Eggs (dz)	.95	1.03	108.4	.86	97.7	6
Margarine (lb)	.81	1.06	130.9	.82	108.3	2
Other Fats (lb)	.90	1.02	113.3	.83	97.3	4

Category weight = 4.4

Category index = 124.2 Local private and 113.2 Commissary/exchange

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
GROCERY STAPLES						
Milk, Fresh (qt)	.58	.74	127.6	.70	123.0	23
Milk, Evaporated (13 oz. net)	.53	.60	113.2	.49	97.7	2
Milk, Dried (lb)	1.88	2.02	107.4	1.56	90.6	1
Bread (lb)	.44	.68	154.5	.59	142.1	27
Cake Mix (lb)	.88	1.05	119.3	.65	86.6	3
Flour (lb)	.24	.28	116.7	.22	98.7	3
Cereal (lb)	1.27	1.46	115.0	1.02	91.5	3
Rice, Regular (lb)	.48	.72	150.0	1.00	191.4	4
Coffee (lb)	3.02	3.66	121.2	3.36	113.3	8
Soft Drink (12 oz. 6-pack)	1.91	2.17	113.6	1.65	98.1	15
Chocolate Bar (1 3/8-1 5/8 oz.)	.31	.34	109.7	.22	79.9	5
Sugar (lb)	.51	.55	107.8	.46	94.2	5
Baby Food (4 1/2-4 3/4 oz.)	.27	.34	125.9	.19	86.5	1

Category weight = 4.6 Category Index = 129.8 Local private and 118.8 Commissary/exchange

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
FRUITS AND VEGETABLES						
Fresh Citrus (lb)	.57	.87	152.6	.42	107.6	10
Canned Juice (46 oz.)	1.05	1.44	137.1	.98	103.8	15
Fresh Fruits (lb)	.63	.93	147.6	.50	108.7	15
Canned Fruits (29-31 oz.)	.98	1.27	129.6	.99	107.9	9
Potatoes (lb)	.28	.63	225.0	.18	136.6	12
Fresh Vegetables (lb)	.64	.83	129.7	.48	99.6	16
Canned Vegetables (15-16 oz.)	.61	.72	118.0	.57	98.8	17
Frozen Vegetables (10 oz.)	.68	.88	129.4	.70	108.7	6
Category weight = 1.8	Category index = 145.2 Local private and 108.0 Commissary/exchange					
TOBACCO & ALCOHOL						
Cigarettes (carton of 200)	5.89	5.62	95.4	3.49	73.4	54
Whiskey (fifth)	6.12	10.62	173.5	7.16	157.7	20
Beer (12 oz. 6 - pack)	2.32	3.45	148.7	1.99	124.2	26
Category weight = 2.6	Category index = 124.9 Local private and 103.5 Commissary/exchange					

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
PERSONAL CARE						
Sanitary Napkins (12)	1.38	1.60	115.9	.97	84.4	9
Toothpaste (3 1/2 oz.)	.94	.74	78.7	.66	72.8	7
Razor Blades (5)	1.25	1.31	104.8	.94	84.4	4
Launder Shirt	1.01	1.10	108.9	1.20	112.0	16
Dry Clean	4.64	7.75	167.0	4.33	135.3	32
Haircut	5.18	10.92	210.8	4.02	158.9	9
Shampoo and Wave	11.64	11.50	98.8	9.78	97.2	23
Category weight = 3.0	Category index = 132.7		Local private and 113.9	Commissary/exchange		
FURNISHINGS AND HSLD. OPERATIONS						
Services	148.58	222.87	150.0	222.87	150.0	20
Postage	.15	.15	100.0	.15	100.0	3
Laundry Soap (lb)	.78	.77	98.7	.60	82.4	3
Scouring Powder (14 oz.)	.47	.50	106.4	.38	87.3	2
Toilet Tissue (500-1000 Sheets)	.44	.52	118.2	.29	79.0	2
Light Bulb (75 watt)	.82	.72	88.0	.25	72.9	4
Sewing Machine	321.47	512.96	159.6	249.00	132.5	1

ITEM AND UNIT	NVAL. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHT
FURN. AND HSLD. PER. (cont.)						
Electric Iron	21.67	32.02	151.5	19.96	131.9	2
Washing Machine	444.12	424.95	95.7	310.00	87.2	7
Vacuum Cleaner	115.62	225.79	195.3	94.50	157.8	6
Sheet	9.62	8.49	88.5	7.42	85.4	29
Telephone	10.42	12.24	117.5	12.24	117.5	21
Category weight = 11.7	Category index = 117.4 Local private and 110.7 Commissary/exchange					
CLOTHING						
Man's Sport Coat	89.57	75.50	85.5	54.00	77.1	10
Man's Suit	148.40	130.83	89.2	123.33	87.1	20
Man's Shirt	12.80	15.83	123.0	8.13	103.4	10
Man's T-Shirt	7.56	8.41	111.1	7.00	105.0	3
Woman's Suit	105.65	60.83	60.2	60.67	58.6	8
Woman's Skirt	25.62	20.66	82.0	18.83	79.5	23
Woman's Slip	10.07	8.83	88.8	8.92	88.3	5
Woman's Panty Hose	2.28	2.22	98.0	1.70	92.4	6
Woman's Shoes	22.26	26.50	118.5	25.33	117.6	12
Boy's Shoes	27.20	24.62	91.2	16.67	82.0	3
Category weight = 8.1	Category index = 93.0 Local private and 88.1 Commissary/exchange					

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHT
MEDICAL						
Health Insurance	21.32	17.61	82.6	17.61	82.6	40
Aspirin (100)	1.47	1.80	122.4	1.18	101.8	6
Milk of Magnesia (12 Oz.)	1.60	1.69	105.6	1.15	89.1	5
Prescription #1 (24 tab. 250 mg.)	1.80	2.55	141.7	1.00	99.5	5
Prescription #2 (80 units)	4.18	4.30	102.9	1.00	64.2	4
Medical Doctor	22.50	27.50	122.2	1.00	52.7	12
Dentist, Filling	20.00	37.50	187.5	8.12	127.3	5
Dentist, Extraction	25.00	40.00	160.0	8.12	107.7	5
Dentist, X-Ray	6.00	8.25	137.5	6.76	127.3	5
Hospital (room)	194.12	189.00	97.4	73.50	59.9	13
Category weight = 5.1	Category index = 108.4 Local private and 83.4 Commissary/exchange					
RECREATION						
Camera Film (35 mm, 36 exp)	4.50	4.91	109.1	4.91	109.1	7
Film Processing (of above)	3.11	3.62	116.4	3.62	116.4	7
Paperback Book	3.08	3.00	97.4	3.00	97.4	11
Newspaper, local daily	.20	.25	125.0	.25	125.0	11

ITEM AND UNIT	NATL. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
RECREATION (cont.)						
Radio, (Short wave or AM-FM)	68.20	74.95	85.0	53.00	76.8	8
TV Set, 18-19 in. B&W or Color	429.22	501.30	116.8	143.33	104.0	18
Bicycle 24-27 in. 3- or 10-speed	124.50	156.17	125.2	90.00	111.6	7
Record, 12 in. stereo	6.77	6.54	96.7	5.32	91.9	8
Movie Theater	4.00	4.50	112.5	1.50	95.2	23
Category weight = 10.7	Category index = 110.4 Local private and 102.2 Commissary/exchange					
AUTOMOBILE PURCHASE						
Purchase Price	5752.61	6067.91	105.5	6067.91	105.5	—
Category weight = 9.7	Category index = 105.5 Local private and 105.5 Commissary/exchange					
TRANSPORTATION						
AUTOMOBILE OPERATING COSTS						
Lube and Oil	23.93	26.92	112.5	17.65	106.7	2
Tune-up	47.32	69.64	147.2	44.10	139.1	2
Tires	40.30	79.95	198.4	61.28	191.5	10
Gas (gal)	1.294	1.310	101.2	1.310	101.2	59
Liability Ins.	176.80	184.96	104.6	184.96	104.6	14
Collision Ins. ($50 ded.)	180.00	176.16	97.9	176.16	97.9	9

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
TRANSPORTATION (cont.)						
Comprehensive Coverage	25.20	55.68	221.0	55.68	221.0	4
Sub-Category weight = 79	Sub-Category index = 117.0 Local private and 116.1 Commissary/exchange					
Auto Operating costs	—	—	117.0	—	116.1	79
Taxi, 1 1/4 mile (inc. tip)	1.38	3.02	218.8	3.02	218.8	1
Municipal Bus Fare	.58	.50	86.2	.50	86.2	13
Air Fare (per mile)	.158	.124	78.5	.124	78.5	7
Category weight = 10.3	Category index = 111.3 Local private and 110.6 Commissary/exchange					
FOOD AWAY FROM HOME						
Breakfast (inc. tip)	4.06	6.21	153.0	3.13	143.9	19
Lunch (inc. tip)	7.52	8.69	115.6	4.62	101.5	57
Dinner (inc. tip)	11.72	13.68	116.7	11.02	114.4	24
Category weight = 5.7	Category index = 123.0 Local private and 112.7 Commissary/exchange					

ITEM AND UNIT	WASH. PRICE	LOCAL PRICE	LOCAL RATIO	COMM/PX PRICE	COMM/PX RATIO	ITEM WEIGHTS
MAINTENANCE AND REPAIR						
Paint (1 gal.)	16.40	15.69	95.7	15.69	95.7	38
Plywood* (4' x 8')	8.35	13.65	163.5	13.65	163.5	9
Concrete (100 lb. bag)	4.26	10.60	248.8	10.60	248.8	9
Electrical Wire (12/2 size, 250' coil)	51.40	48.60	94.6	48.60	94.6	4
Window Glass (24" x 24")	6.23	8.00	128.4	8.00	128.4	5
Common Nails (1 lb. - 10 penny)	1.00	.85	85.0	.85	85.0	9
Window Glazing Compound (1 qt. can)	4.05	4.62	114.1	4.62	114.1	5
Composition Roofing Shingles (per sq. - 100 sq. ft.)	39.67	52.80	133.1	52.80	133.1	21

Category weight = 1.6 Category index = 125.0 Local private and Commissary/exchange

* Finish and thickness vary between areas.

HOUSING COSTS AND INDEXES

Grade Group	Washington Priv. Rent. Avg. Cost	Washington Homeowners Avg. Cost	ANCHORAGE Priv. Rent. Avg. Cost	ANCHORAGE Govt. Rent. Avg. Cost	ANCHORAGE Homeowners Avg. Cost	Govt. Renters Cost Relative	Govt. Renters Sample Propor.	Private Renters Cost Relative	Private Renters Sample Propor.	Homeowners Cost Relative	Homeowners Sample Propor.	Homeowners and Renters Combined Index	Homeowners and Renters Combined Propor.
1-5	$3,646	$6,305	$4,614	1/	$8,468	1/		126.5	12.0	134.3	9.6	130.0	21.6
6-7	3,870	6,463	4,932		9,032			127.4	5.9	139.7	8.1	134.5	14.0
8-9	4,025	6,399	5,415		8,749			134.5	7.1	132.6	13.0	133.3	20.1
10-11	4,044	7,410	5,813		9,495			143.7	2.8	128.1	12.5	130.9	15.3
12	4,503	7,833	6,484		10,237			144.0	2.2	130.7	14.7	132.4	16.9
13	5,039	8,263	7,733		10,325			153.5	.4	125.0	7.8	126.5	8.2
14	5,459	8,523	8,537		10,612			156.4	.2	124.5	2.6	127.1	2.8
15+	6,543	8,895	6,396		11,358			97.8	.1	127.7	1.0	125.6	1.1
Totals:													100.0
Weighted averages:												131.4	

Private renters and homeowners index = 131.4

U.S. Government renters index = 1/

Category weight = 20.7 for each type of housing

1/ No Federal housing was reported for Anchorage in the 1980 survey.

ANCHORAGE 1980

CATEGORY INDEXES

CATEGORY NAME	WEIGHTS	INDEXES LOCAL/RETAIL	INDEXES COMMISSARY/PX
1. Meat, Eggs, Fats	4.4	124.2	113.2
2. Groceries	4.6	129.8	118.8
3. Fruits & Vegetables	1.8	145.2	108.0
4. Tobacco & Alcohol	2.6	124.9	103.5
5. Personal Care	3.0	132.7	113.9
6. Household Operations	11.7	117.4	110.7
7. Clothing	8.1	93.0	88.1
8. Medical Care	5.1	109.4	83.4
9. Recreation	10.7	110.4	102.2
10. Transportation	10.3	111.3	110.6
11. Food Away	5.7	123.0	112.7
12. Auto Purchase	9.7	105.5	105.5
13. Home Maintenance	1.6	125.0	125.0

	WEIGHT	HOUSING INDEXES
Private Housing	20.7	131.4
Federal Housing	20.7	1/

FINAL INDEXES AND ALLOWANCE RATES

Allowance Category	1980 Index	Authorized Allowance Rate
Local Retail/Private Housing	117.8	17.5%
Local Retail/Federal Housing	1/	1/
Commissary/Exchange/Private Housing	111.0	10.0%
Commissary/Exchange/Federal Housing	1/	1/

1/ No Federal housing was reported for Anchorage in 1980.

Senator STEVENS. Well, I just want to get some details first. For instance, we have got the comparison data that you have used. I want to make sure it is the Anchorage 1980 cost-of-living program summary. It is a bunch of sheets, just to make sure we are dealing with the same thing. Let me just ask you some questions.

You look at the household, and we will compare telephone costs. But it doesn't compare the telephone cost of long distance. If you are here in Washington, D.C., you can call anywhere in the country—I forget the base price. But if you are in Alaska and Hawaii, if anyone looks at the television ad for Ma Bell, they can see it doesn't include Alaska and Hawaii. There is a significant difference, but you didn't include it. Why didn't you include the long distance rates, where we are in fact discriminated against and don't have the same basis as others?

Mr. KISTLER. I am not sure I have the backup to give the specifics on that particular item. Let me invite Mr. Julius. But, Senator, if we can't handle that here before you, we will certainly give a response for the record.

Senator STEVENS. Mr. Julius?

Mr. JULIUS. Sir, I have no explanation with me.

Senator STEVENS. The average Alaskan probably pays more long distance bills than any American as a monthly routine, but it is not included as part of the cost-of-living difference between Washington, D.C., and Alaska.

Mr. KISTLER. It is an area I would be most pleased to take a look at and give you a report on. I am sorry I can't do it here.

[The information referred to follows:]

LONG DISTANCE TELEPHONE CHARGES

The telephone service specification included in the pricing survey is private line unlimited residential service. Long distance charges, as such, are not priced in either Washington, D.C., or in an allowance area.

No information is available from the latest BLS consumer expenditure survey on long distance calls from either Alaska or Washington, D.C. The BLS survey is the source for all the item weights in the COLA survey. The fact that telephone rates are higher in Alaska is clearly recognized and is reflected in the rates for local telephone service. For example, from 1979 to 1980, the reported cost of local telephone service in Anchorage increased 31 percent over Washington, D.C., costs for the same period. This resulted in an 1980 price ratio for telephone service that was 17.5 percent higher in Anchorage.

Our use of the cost of local service only is modified somewhat by using a weight based on total expenditures for telephone service, including those for long distance calls.

Senator STEVENS. In terms of transportation, there is a comparison in the municipal bus fare. Now you can get on the bus and come from Maryland all the way in here to downtown. There is a bus in Anchorage and it goes just around the downtown corridor, and it is 50 cents. What do they call it? It is the apple-eater type of bus. What do they call it?

Ms. GIROUX. People mover.

Senator STEVENS. But it is not a bus system in the sense Washington, D.C. has, but if you compare municipal bus fare, 50 cents for a bus for Alaska, but that is not a bus that would take you to work and take you back. It is strictly an intercity system to move people from literally one shopping center to another. It is a differ-

ent system. But it is compared here and the impression would be that it literally costs less to get to work in Anchorage than it does here. Why aren't those analyzed in terms of the fairness of the comparison?

Mr. KISTLER. I would comment on the general point, then also make a specific point. I don't think we try and attribute the bus cost in Anchorage or in Washington or in any of our other COLA areas as the cost of commuting to work. We do try to take into account all the factors that do go into that major area. So we do get into things like automobile costs and fuel costs and gasoline costs, taxi costs, bus costs, all the rest of it.

Senator STEVENS. But it is giving the item a weight of 13, which is higher than insurance, higher than taxi costs, higher than tires for automobiles. Other than gasoline and the overall operating costs for automobiles, it is the highest one in the area.

Again, it is the fairness of it that I am looking to, Mr. Kistler. You have an air fare per mile. Washington prices, 0.158 per mile; Alaska is 0.124 per mile. But there is no comparison of miles. My God, you could fly—I don't know anyone who would hire an airplane to fly across the District of Columbia. Yet people in Anchorage can't go anywhere out of Anchorage going into the east and into the valley without flying by air. And we charter a lot of planes. Probably more people who are working people charter planes on a monthly basis in Alaska, particularly in Anchorage, than anywhere in the country, and yet that factor is not put in here. It looks as though again it is cheaper to live in Anchorage than in Washington, D.C.—and it is not at all. In terms of air transportation, that is assigned a weight of seven, again roughly about the average weight of all the items in that transportation item. That is basically not fair, Mr. Kistler.

Mr. KISTLER. Senator, I visited Anchorage in January in connection with the reduction that we announced in January. It was a reduction in Anchorage. It was an increase, I believe, in Juneau. When Anchorage went from 20 to 17½ and Juneau went back up——

Senator STEVENS. Back up to 25.

Mr. KISTLER. Yes. And I did meet with labor representatives up there. I met with the press. I met with the Federal Executive Association and a lot of agency representatives. And it is very clear to me that there are these perceptions—and I don't mean to denigrate them by calling them perceptions—there are, I think, valid observations about our survey process. The thing I would personally criticize OPM about and my own operation about most is I think we have done a less than effective job of providing a mechanism, a way, in which the Federal community in Alaska can raise these issues with us, whether they are highly detailed or whether they are more general kinds of concerns, in a way that we can deal with them and respond to them and explain them, if they are explainable—long distance rates, for example—or if it isn't explainable, to change our survey to do it right. The one failing is that there really is no way for those people to talk to us, and there hasn't been.

I came back from Anchorage persuaded of two things. First, that my visit, being somebody who has, if you will, managerial responsi-

bility in the area, was useful, and I think the people there found it that way. And I don't want to suggest they were pleased with the outcome of the survey, because they weren't. But they were somewhat less antagonistic about it than I think they might have been, and that I think tells us something about how we ought to relate to that group. We need to give them attention, and top level attention, and to be willing to stand in front of them and explain to them what we are doing and why.

Second, I came back convinced that we need a better process for those people to critique what we do, to ask the kind of questions you are asking, to review the prices that we get and see if they make sense or if they raise questions in the mind of the Alaskan Federal community. And I made a fairly loose pledge to the group up there, but I made a rather sincere pledge to myself, to do something about it.

Senator STEVENS. I know you did, and I know your heart is in the right place. We have had conversations about this. But we are just 4 out of 100 in the Senate and 3 out of 435 in the House, and I really don't see Hawaii and Alaska getting much shot at changing this statute to make it more fair.

Let me dwell on something. I have had two wives. My first wife did a lot of shopping at home and we raised five kids, both in Anchorage and here. And my wife was a very discriminating shopper. I wish you could tell me where she can get a woman's suit for $60.83 which is exactly the same as she can get in Washington, D.C., for $105. Or I wish you could tell me where I can buy a man's sport coat for $75.50 in Anchorage which would cost $89.57 in Washington. Or I wish you could tell me where I could buy some present for her, where I could buy some of these items listed. Again, that just "ain't" so. There is no way that you can buy clothes cheaper, the same clothes cheaper, in Anchorage than you can buy here because I shop in both places. Those on our staff who live part-time in both communities probably know these comparisons as well as anyone. I question seriously how you could possibly get that clothing.

The other thing is we probably don't buy the same things. My kids hate to wear sport coats. They buy bush jackets. They don't buy a man's suit. They buy a bush jacket and pants. You don't have those on here at all. You don't look at life styles. I don't understand basically where we got this, and I really would like to know. I would like to have someone tell me for the record—and I specifically request—where did you get the price of $130.83 for a man's suit as compared to $148.40 in Washington?

Mr. KISTLER. We will provide that to you, sir.

[The information follows:]

COST OF A MAN'S SUIT

The prices for a man's suit in Anchorage and Washington were computed in the following way. In each city, Federal employees were asked to identify the retail stores where they most frequently shopped. We then went to the two most frequently named stores in each city, and asked for the prices for their best-selling man's suit, their second-best-selling man's suit, and their economy-priced man's suit. The prices we obtained were as follows:

	Anchorage	Washington, D.C.
First store:		
Best-selling suit	$140.00	$240.00
Second-best-selling suit	105.00	195.00
Economy-priced suit	100.00	119.99
Second store:		
Best-selling suit	145.00	130.00
Second-best-selling suit	175.00	95.00
Economy-priced suit	120.00	59.99
Average	130.83	140.00
Sales tax	NA	8.40
Comparison price	130.83	148.40

Senator STEVENS. But who gets those? Who does it really?

Mr. JULIUS. Who collects the prices?

Senator STEVENS. Yes.

Mr. KISTLER. Those prices are collected by the Bureau of Labor Statistics data collectors that operate this program, the price collection part of this program, for us.

Senator STEVENS. The same person who goes to Washington goes to Anchorage?

Mr. KISTLER. No, sir. It is the BLS staff here and the BLS staff out of Seattle.

Senator STEVENS. How do they know Helen's suit would be the same suit if she bought a suit in Anchorage and here, same style at least? I just wonder. Probably the most important category we have got in terms of overall categories in lifestyle differences in Anchorage and Washington is clothing. And yet in terms of the overall study—incidentally, it is weighted 8 percent, less than furnishing for household, less than transportation. To an Alaskan, probably the second highest cost of living is clothing. First is the heat and household maintenance. Second would be clothing if you have a family. And yet it is the only one—I think it is the lowest percentage—no, I guess the lowest percentage is meats, and I could get into that one, too. I wish you could tell me where I could buy that beef in Anchorage for $4.65 a pound.

Mr. KISTLER. For each of the items you have mentioned, there are basically six prices averaged together. There are prices from two outlets which are identified by Federal employees in Alaska as the places where they frequently shop, whether in Anchorage, Juneau or Fairbanks, and what we typically price is the first volume seller, second volume seller and economy item, if there is an economy item. And those price averages are derived from that. Any prices that look bad to the community or to us or to you, I think we are dutybound to go back and recheck them. And we will do that and we try and do that on a continuous basis to make sure we are not getting bad data in the program. Our experience is that the Bureau of Labor Statistics has a very vigorous price collection process, and we don't find many errors.

Senator STEVENS. Let's look at health insurance, health insurance for Federal employees, the postage stamp rate. We pay the same thing in Anchorage and Washington. It is Governmentwide. Yet; in Washington the cost is $21.32 and in Anchorage it is $17.61. How could that happen? My employees in Anchorage get exactly

the same brochure as my employees in Washington, D.C., and we pay the same price. How could you get into a study and crank in a differential?

Mr. KISTLER. There are, sir, 120 plans offered.

Senator STEVENS. Why would you use a different plan in Alaska than you do here? You can get Aetna there, Aetna here; Blue Cross there, Blue Cross here. You pay the same price as a Government employee.

Mr. KISTLER. These figures, first of all, represent the average cost employees themselves incur in each location. Second, they are in fact reflecting differences such as, for example, the different rates that would be charged by a health maintenance organization in Washington. Again, it is an area——

Senator STEVENS. Unless you are comparing private sector in Alaska to Washington, D.C., which is probably 50 percent, 60 percent Government.

Mr. KISTLER. No, sir; we are comparing Federal to Federal, actual experience.

Senator, may I make one point?

Senator STEVENS. I am not trying to harass you. I am just trying to harass the statistics. We have talked before and I appreciate your trying to understand us. But I can't answer questions when they come at me from my constituents.

Mr. KISTLER. You mentioned there are four votes in the Senate. To a point I was making earlier that I was rambling on about, let me close that. I am not talking about the Senate. There are things that OPM can do to open up lines of communication and ways in which there can be local review of this survey data. And I have made some proposals to the Alaska Federal community through our regional director in Seattle and our area manager in Anchorage of ways in which we can surface these problems at the outset and try and resolve these matters before we go into a survey and where we can validate that data. I think those are the kind of things we can do that will provide a greater role for Alaskans in the process. I just want to tell you that we are beginning a process of doing that. I am not suggesting it will necessarily change the rates, although it could if there are things we ought to be doing differently. But it will certainly provide a better opportunity for folks in Alaska to help influence the process. I would be pleased to perhaps in a letter in some fashion brief you in more detail on just what we have in mind.

Senator STEVENS. Well, I would like to say I hope we get the experiment going and see what will happen with locality pay. How long that can keep up I don't know. But I would like to see us look at the District of Columbia and look at Alaska and try to find out what employees really spend their money on that are in the same category. And it does no good, I don't think, to compare—and I didn't get to the recreation component, but that is an interesting one, too, in terms of how we spend our money for recreation and what they spend here. It notes you can buy a short-wave radio cheaper in Alaska than in Washington. If that is so, someone is really getting ripped off in Washington because we are paying transportation costs on it that they are not paying. But the real recreation items in Alaska would be the cost of hipboots for your

kids and fishing rods and lures and the cost of a new gun for your son. Our recreation patterns are not the recreation patterns of Washington, but instead we pick items which are the recreation items of Washington to compare it to.

Mr. KISTLER. Senator, we do not agree with the basic notion that framing these allowances around Washington, D.C., in terms of either its prices or its living styles makes a lot of sense, yet the statute requires exactly that, in our judgment. But what it means is that when things change in Washington, that allowance can change even if things were absolutely stable in Anchorage. That doesn't make sense to employees up there and it doesn't make sense in general. But it is what we are compelled to do under the law.

Senator STEVENS. I have to disagree with you. The statute does not say you have to take the price of a camera in Washington and the price of a camera in Anchorage and compare the difference between the two and have that have an impact on the cost of living. It says compare the difference in the cost of living in Washington and Alaska. You interpret it that way. We interpret it as find out from the Washington Federal employee how much of their money do they spend on recreation and what does it cost them and find out from Alaskan employees how much they spend on recreation and what does it cost them. The difference between the two would in fact be the impact of the cost-of-living allowance. But to take arbitrary things that Washington uses and Alaska doesn't and compare the cost is what is leading us down the line to getting the wrong result. And you cannot say that it costs less to live in Alaska than it does here today, that the cost of living is increasing faster than it is in Alaska. By definition we know it is not so.

Mr. KISTLER. We do not say that it costs less to live anywhere in Alaska than in Washington, D.C. We do, in fact, pay a differential. We do say every economic indicator we see indicates those two are coming closer together. The unfortunate design of the COLA program is if that is so, then the inescapable fact is those allowances will go down. We can dispute the base price that should govern it, but the allowance will go down as those differences come together. And the statute mandates that, Senator.

Senator STEVENS. That is true, and I don't dispute your conclusion if you base your concept on the fact you look at the Washington lifestyle and found out what it could cost to live in Alaska. In fact, it is compared to the Washington lifestyle. If you are looking at Alaska and see what we spend our money on, the costs are going up alarmingly—energy, clothing and recreation costs are the type of things we spend our money on. The recreation costs are going up much faster than they are in Washington. But you don't compare what we spend our money on. You look at what Washington spends its money on and try to find comparable things in Alaska, and they are not there. Just like the airfare. I don't know who put the airfare in here for Washingtonians, but I challenge you to find anyone who spent money in Washington for airfare. And it shouldn't be there. On the other hand, if you put it in in Alaska, it comes out less because it is less per mile cost to fly in Alaska. And I don't understand the fairness of these things even under the present statute, and I don't know really what we can do to get to it because

your people, in my opinion, have not been fair in looking at the Alaska lifestyle and expenditures. I don't know what we are going to do to get you to do it.

But then we look at the military people, and the military people have been fair. But then they put a spendable income limitation on it, so we get continued objections from our military residents, if this makes any difference.

Now I am chairman of the subcommittee that must review the administration's recommendation, and the administration recommendation presented to us a complex package which would even more rely upon analyses such as you have done in Alaska and Hawaii under COLA. And the reason I will not support that package as it stands—and have told them I will not support the package—is because I cannot believe we should set up a system of having similar analyses of every locality in the country with the differentials that would come from that. It would hire more people to make more samples to make more analyses of locality pay and lead to even more inequity in the long run under the administration's proposal. I think the reform package has so many controversial provisions that unless we get some studies to find out how locality pay should work so there would be some confidence in the system, we should not recommend it. And I will oppose it. I have already told them I will oppose it until we find some way to make it automatic, to get some categories that do not involve discretion, do not let someone put in airfare here and there when they are apples and oranges, do not recognize the fact we don't buy suits, we buy bush coats and jackets. Again I really hope you can tell me where I can find a suit for $60 and some odd cents. I gave up buying from my friend up there because they were charging too much.

Mr. KISTLER. I would like to assure you we will examine and defend every item and if an item is not defensible, we will change it.

Senator STEVENS. I invite anyone to make an annual trip up there and buy four or five suits because that will pay for the trip, that kind of difference. But I am going to ask, and I hope you deliver to Dr. Devine, a letter asking OPM to establish a locality pay experiment in Anchorage. It is a self-serving thing to a certain extent because we know it will correct the current deficiency as far as the cost-of-living allowance in Anchorage. But I am not being totally self-serving. I want to see if we can develop a mechanism that people who represent Government employees throughout the country can rely on. I think basically no one after looking at Alaska or Hawaii in terms of computation of COLA in the last 3 years can rely on the system of indices that have been accepted either by your predecessor, the Civil Service Commission, or OPM or by the military or by the Department of State. There are so many variations that it depends on who writes the instruction what you come up and compare. No one is going to accept that system nationwide. You can't have people going into Sears in Mobile and into Neiman Marcus in Houston and into Montgomery Ward in Seattle and come up with a price that is fair. We have locality differences. That is what you have done to us I think. I don't know what store you went to in Anchorage, but I just don't see how you could go

into the same Sears store even, if you are going to take Sears' prices, in Anchorage compared to Washington. You have a differential.

Mr. KISTLER. We would appreciate an opportunity to walk you through our proposed local pay methodology. I think we could satisfy a number of your concerns. I think we do have experience and capability in salary and wage surveys——

Senator STEVENS. In locality pay?

Mr. KISTLER. We have a record on the blue-collar side of administering a locality pay system, and we are talking about the——

Senator STEVENS. Are you talking about the wage board?

Mr. KISTLER. Yes, sir.

Senator STEVENS. Well, we could hold a hearing on that one, too.

Mr. KISTLER. Yes, sir.

Senator STEVENS. Wage board is not locality pay, but wage board is not working fairly either. But you have never had an experiment in locality pay, have you?

Mr. KISTLER. No, sir, we have not, not in the way that it is proposed in S. 838 for the General Schedule population. We have not.

Senator STEVENS. I want you to interpret the letter as asking you to establish that kind of system in Anchorage and let's see how it works.

Mr. KISTLER. All right, we would be most anxious to take a look at it.

Senator STEVENS. And try to see what we can do to develop some automatic mechanisms that people can rely on, where it isn't a guesstimate that someone is pricing the same suit that Helen bought at Fort Richardson or here in Washington. That is not what we are looking at at all. We are looking at comparing salary level with salary level and trying to see if we are comparing jobs with jobs as far as the same locality is concerned. Even that can get you to apples and oranges if you are not careful.

Mr. KISTLER. I understand.

Senator STEVENS. I have got to go to another hearing, I am sorry. I appreciate your time. We do have the letter here which we will ask you to deliver to Dr. Devine. I want to thank everyone for taking the time to work. Again, I mean no personal affront to you gentlemen. I know you are doing your job as it is set out. But I think we have got to get some basic fairness involved in these systems in Alaska so we can have confidence in them. I am alarmed at the retention rate of agencies in Alaska. It is costing the Government more to recruit and retain employees in Alaska than anywhere else. They are just not staying on the job at the levels where we need to maintain confidence in terms of employment. I hope this experiment will lead us toward the solution.

Thank you very much.

Mr. KISTLER. Thank you.

Senator STEVENS. The subcommittee will be recessed.

[Whereupon, at 10:35 a.m., the subcommittee recessed, to reconvene subject to call of the chair.]

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